July 27, 2001

Dear Interested Agricultural Person:

As you know, the Washington State Legislature recently passed several measures providing new tax exemptions and assistance for farmers. This letter addresses the implementation plans for the tax changes in three of those bills: Second Substitute Senate Bill (2SSB) 5947, Substitute Senate Bill (SSB) 5496, and Substitute House Bill (SHB) 2138.

2SSB 5947 – Dairy Nutrient Management

2SSB 5947 provides a sales and use tax exemption for the purchase of services, replacement equipment and parts necessary to maintain a dairy nutrient management plan once the plan has been certified as being fully implemented and operational.

The legislation requires that eligible dairy farmers apply to the Department of Revenue for an exemption certificate. Upon approval, dairy farmers will then provide copies of that certificate to vendors to claim the exemption.

The Department has drafted a sample letter of application for distribution to eligible members. This sample letter will also be available on the Department's web site at http://dor.wa.gov/, or it can be requested by using the Department's toll-free assistance line, 1-800-647-7706. Eligible dairy farmers may download the letter, fill in the relevant blanks, and send this letter to the Department as their exemption application. The agency will then verify eligibility for the exemption using Department of Ecology data on certified dairy nutrient management plans. Approved dairy farmers will receive a letter of approval explaining the exemption and a completed exemption certificate. A copy of the sample letter of application is enclosed.

SSB 5496 – Animal Pharmaceuticals

SSB 5496 provides a sales and use tax exemption for the purchase of animal pharmaceuticals by farmers or by veterinarians if the pharmaceutical is to be administered to an animal that is raised by a farmer for the purpose of producing for sale an agricultural product. The animal pharmaceutical must be approved by the United States Department of Agriculture or by the United States Food and Drug Administration.

Farmers may purchase animal pharmaceuticals exempt from tax by using a new exemption certificate titled "Farmer's Retail Sales Tax Exemption Certificate." This certificate will be provided to agricultural organizations for distribution to members, and will also be available on the Department's web site. A copy of the certificate is enclosed. Veterinarians may purchase animal pharmaceuticals exempt from tax by using the "Buyer's Retail Sales Tax Exemption Certificate," which has been amended to include this new exemption. A copy of the certificate is enclosed.

<u>SHB 2138 – Dairy Products Manufacturing and Poultry Farming</u>

SHB 2138 provides a reduced business and occupation (B&O) tax rate for manufacturers of dairy products (from 0.484% to 0.138%).

SHB 2138 also provides a sales and use tax exemption for the purchase of propane or natural gas used to heat structures that house chickens that are sold as agricultural products. The legislation also provides a sales and use tax exemption for the purchase of bedding materials that are used to accumulate and facilitate the removal of chicken manure, when the chickens are grown and sold as agricultural products.

Dairy products manufacturers will report under the new B&O tax rate as of September 20, 2001. The Department will be sending these businesses a letter with instructions for reporting income under the old and new tax rates for the month of September.

Farmers may purchase propane, natural gas, and bedding materials as described above by using the new "Farmer's Retail Sales Tax Exemption Certificate." Please note that this exemption is effective September 20, 2001, as noted on the certificate.

I hope this information is useful to you. Please contact me at (360) 570-6130 if you have any questions about these exemptions. I would also be happy to provide electronic copies of the exemption certificates and the sample letter of application upon request.

Sincerely,

Julie Murray
Legislative Coordinator

Enclosures (3)